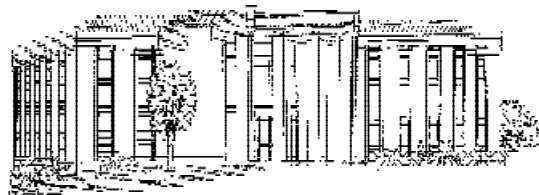


# KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM  
OF THE STATE OF KENTUCKY

RETIRED MEMBER EDITION  
February 2005



## Needed Funding for Retired Teachers' Medical Insurance Plan Is Not Included in Governor's Budget

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For the last 40 years, retired teachers have been provided medical benefits on par with other public retirees. There is a danger that could change. The needed funding for the medical insurance benefit for retired teachers as provided for under House Bill 434 is not included in the Executive Budget just released by the Governor's Office. The General Assembly enacted House Bill 434 during the 2004 General Session to provide a state medical insurance contribution to maintain the medical plan at current levels.

Your support of this legislation as manifested by your calls, letters, e-mails, and personal contacts with your legislators was crucial to the passage of this key legislation. As a result of your efforts and support, the General Assembly not only passed HB 434, but demonstrated a willingness to provide the dollars needed to fund the medical insurance plan.

As noted in previous newsletters, medical insurance costs and the maintenance of the medical insurance plan have been a grave concern of the Board of Trustees for a number of years. Because of this concern, they have worked to build medical insurance

reserves to protect this benefit. In addition, the retirement system has maintained substantial communication with both the Governor's Budget Office and members of the General Assembly, keeping them informed of the importance of properly funding this benefit long-term. Though many steps have been taken to address this issue, the medical insurance plan is at the juncture where the benefit cannot be continued at current levels without financial support from the Commonwealth as envisioned by House Bill 434.

Although funding for the medical insurance plan was at a critical point during the

2004 General Session, the crisis has become more immediate as a result of the 42% increase in the cost of medical insurance in the State Group Health Plan for plan year 2005 compared to national average increases ranging from 8% to 11%. As all KTRS retirees age 64 and younger participate in the State Group Health Plan, this unexpectedly large increase in costs has an immediate and direct impact on the funding of the overall KTRS medical plan. Additionally, KTRS has been informed by the administration that the cost for plan year 2006 is anticipated to rise by an additional 15% to 25%.

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House Bill 434. "**

*continued on page 2 . . .*

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**Needed Funding for Retired Teachers' Medical Insurance Plan is not Included in Governor's Budget continued . . .**

These increased costs are expediting the depletion of the medical insurance reserves at a much faster rate than reasonably could be anticipated. In early 2004, State Group Health Plan premiums were projected to increase by approximately 10%. An increase of this or a similar size would have left the retirement system with sufficient reserves to carry it through the 2006 plan year. However, with the unexpectedly large increase of 42% in plan year 2005 compounded with an increase in plan year 2006 of as much as 25%, the KTRS medical insurance plan may well run out of money by June, 2006. *[In dollars, these increases in the cost of coverage will move the average cost of a single plan from \$3,456 per year to \$6,134 per year in just two years. With 18,800 projected retirees under 65, just the compounded increase in premium would add an additional \$50,346,000 per year cash drain on the fund in 2006.]*

As such, it is critical that during the 2005 General Session KTRS receives the funding for its medical insurance plan as required by House Bill 434. Otherwise, beginning 2006, the KTRS payment of medical insurance premiums for retired teachers may have to be cut, with cuts being possibly **60% or more** of the benefit. To put a 60% reduction in perspective, with insurance premiums projected to rise as high as \$515 per month for single coverage in plan year 2006, a very possible scenario is that retired teachers, for the first time, could pay out-of-pocket an **additional \$310 or more per month** toward their medical coverage in 2006. An optional scenario could be for all retirees under age 65 to pay the projected full cost of \$515 per month for coverage, with retirees age 65 and older paying for part of their coverage.

For another perspective, the average age of all retirees is 67 years old and the average monthly pension five years ago was \$1,584. That average pension increased by the COLA's awarded to keep pace with inflation by the Legislature and the Governor since then has

increased that benefit to \$1,802 today. The impact of paying an additional \$310 or more per month for medical benefits would more than wipe out the positive impact of COLAs for the last five years.

The Governor and General Assembly have a difficult task in apportioning limited public monies among the various funding requests. The KTRS medical insurance plan was established in 1964 with the inception of Medicare and now has over a 40 year history of providing important medical cost support for KTRS retirees. KTRS will devote its full attention to requesting that the Governor and General Assembly include funding in the current budget for the medical insurance plan for KTRS retirees as provided in HB 434.

You, the individual member, have a right to express your view on funding for the KTRS medical insurance program. Kentucky Legislators have asked KTRS members to express their concerns directly to them. ***Again, there is currently no funding in the current budget for the KTRS medical insurance plan as provided under House Bill 434.***

**Please contact your local State Representative and Senator and urge them to fully fund the KTRS medical insurance plan in the current budget.** You may contact your local Representative and Senator directly by calling 502-564-8100 and asking for them by name. If the Legislator you seek to speak with is not in, it is appropriate to leave a message with his or her office explaining your request for full funding of the KTRS medical insurance plan in the current budget. You may also call the toll free Legislative Message Line at 1-800-372-7181 and leave the same message. For a complete list of legislators, see the LRC Web site at [www.lrc.ky.gov](http://www.lrc.ky.gov) and click on "Who's My Legislator" or view the KTRS Web site at [www.ktrs.gov](http://www.ktrs.gov) for a link directly to the LRC Web site.

**Executive Recap . . .**

- ◆ For over 40 years, since 1964, retired teachers have been provided medical benefits comparable to other public retirees.
- ◆ Funding levels for this benefit are at a critical stage.
- ◆ Requested funding of \$29 million in FY 04-05 and \$62 million in FY 05-06 is not included in the Governor's Budget.
- ◆ Without the needed funding, medical benefits could be cut by 60% or more in 2006.
- ◆ **Please contact your legislators and urge them to fully fund HB 434.**

## 2004 Tax Year Information

KTRS mailed 1099R tax forms during the last week of January 2005. Duplicates for lost 1099Rs may be requested by calling 800-618-1687. The information center will confirm your name and address. The tax statement contains confidential information and can only be mailed to the member's address on record. For your protection, it is necessary that the member, Power of Attorney or beneficiary mail (or Fax 502-573-0254) KTRS a written request in order to send the 1099R to a different address. This special request will not change your permanent record unless you specifically request it to be changed.

Please also visit the KTRS Web site at [ktrs.ky.gov](http://ktrs.ky.gov) for additional information and forms, including change of address forms.



KTRS ..... 502/848-8500  
KTRS Toll Free ..... 800-618-1687

KERS ..... 502-564-4646  
KERS Toll Free ..... 800-928-4646

Deferred Compensation ..... 502-573-7925  
Toll Free ..... 800-542-2667

Revenue Cabinet ..... 502-564-4581  
IRS ..... 800-829-1040

### THE EASY EXPLANATION

**BOX 1 (less) BOX 2a = BOX 5**

#### **BOX 1**

Shows your total KTRS pension benefit prior to withholdings.

#### **BOX 2a**

Shows the taxable portion of your benefit. If blank, box 2b "Taxable Amount Not Determined" should be marked. In this case, please see your tax advisor.

#### **BOX 5**

Shows the nontaxable portion of the total. This amount is **NOT** reported anywhere on your tax return. It is an 'information only' box.

#### **BOX 9b**

This box will **only** show an amount in the first year of retirement. It provides the total amount of previously taxed contributions.

**Form 1099-R** OMB No. 1545-0119 Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This information is being furnished to the Internal Revenue Service.  
**2004**

Payer's Federal Identification Number  
61-0600439

**FEDERAL**  
**COPY B - File with Recipient's**  
**FEDERAL Tax Return**

**Payer's Full Name and Address**  
TEACHERS' RETIREMENT SYSTEM  
OF THE STATE OF Kentucky  
479 Versailles Road, Frankfort, Kentucky 40601

1 Gross Distribution

**BOX 1**

2a Taxable Amount

**BOX 2a**

2b Taxable Amount Not Determined ☐

Total Distribution ☐

3 Amount in Box 2a Eligible for Capital Gain Election

4 Federal Income Tax Withheld

5 Employee Contributions

**BOX 5**

6 Net unrealized appreciation in employer's securities

7 Distribution Code

IRA/SEP ☐

8 Other

9a Your Percentage of Total Distribution

9b Total Emp. Contribution

**BOX 9b**

10 State Tax Withheld

**BOX 10**

11 State/Payer's State Number KY 077156

**BOX 11**

12 State Taxable Amount

**BOX 12**

State Percentage %

**BOX 13**

**BOXES 10-13**  
Shows the state tax information. KTRS does not withhold state taxes. Only the service earned after 1/1/98 is subject to **Kentucky** state taxes. Outside Kentucky, your resident state tax regulations apply.

**\*See Page 4 for Schedule P & Schedule M instructions.**

**Any insurance premiums paid by the member will be listed below Boxes 10-13.**

# Kentucky State Tax Laws

The good news is that in preparing your Kentucky state income taxes, there is a \$40,200 EXCLUSION for total state taxable pension income on the Form 740 Kentucky Income Tax Return. Your Form 740 begins with the federal adjusted gross income (AGI). Schedule M of the state return allows adjustments to the federal AGI. Schedule P of the state return is NOT always required; it reports pension income in more detail. You may want to take this newsletter to your tax preparer.

## *Other Considerations . . .*

In the event of the member's death, adjustments to the account are common. KTRS pays benefits up to the date of death. An adjustment may make it necessary to send a Corrected 1099R.

The corrected 1099R will show the date of change on the bottom of each copy. Please use the latest dated copy for tax filing purposes. All corrections are reported to the IRS.

### Schedule M

Add all your 1099R, box 2a, FEDERAL taxable amounts.

**IF THE TOTAL IS UNDER \$40,200 YOU DO NOT HAVE TO FILL OUT SCHEDULE P.** Just subtract the amount from the federal AGI by entering the amount on Part II, line 10. Therefore, you do not owe any state taxes on pensions.

**IF THE TOTAL IS OVER \$40,200 YOU MUST FILL OUT SCHEDULE P.** Even if you are required to fill out a Schedule P, most retired teachers still do not owe any state taxes.

### Schedule P

Add all your 1099R, box 12, STATE taxable amounts. Enter the total on Part II of Schedule P.

**IF THE TOTAL IS UNDER \$40,200 YOU DO NOT OWE ANY STATE INCOME TAX ON PENSIONS.** Follow instructions on completing the schedule.

**IF THE TOTAL IS OVER \$40,200 YOU OWE STATE TAXES ON THE AMOUNT ABOVE THE EXCLUSION AMOUNT.** Again, follow instructions on completing the schedule.

## **CAUTION:**

- \*An amount in the 1099R, Box 12 does not mean you owe state taxes!!***
- \*The requirement to prepare Schedule P does not mean you owe state taxes!***

<i>How Does KTRS Compute the State Taxable Amount?</i>			STEP 1	STEP 2
			Years of service after January 1, 1998, divided by total years of service is the state taxable percentage.	The state taxable percentage times the federal taxable amount equals Box 12 the state taxable amount.
Retired Prior to January 1, 1998	Retired After January 1, 1998 <i>TOTAL FEDERAL RETIREMENT INCOME LESS THAN \$40,200</i>	Retired After January 1, 1998 <i>TOTAL RETIREMENT INCOME MORE THAN \$40,200</i>		
KTRS remains as STATE NONTAXABLE income. If you receive more than \$40,200 federal taxable pension income you still must prepare Schedule P.	If total federal taxable income is less than \$40,200 then all pension income is STATE NONTAXABLE income.	You must fill out Schedule P on your State Income Tax Return. Follow the instructions. Your 1099R will have the information needed to complete the Schedule P.		

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## **Age 65 and Over Changes to the Medicare Eligible Prescription Drug Plan Formulary Effective March 01, 2005**

The following changes will be made to our drug plan formulary effective March 01, 2005. These changes are being implemented to save on your out-of-pocket costs as well as total plan costs, while ensuring that therapeutic alternatives are still available to the patient.

- \*Taper the formulary while ensuring that appropriate therapeutic alternatives are available for each drug with a non-preferred formulary status. You and the plan may save money by using generic or preferred formulary status drugs.
- \*Establish a formulary coverage review process that reviews the clinical necessity of prescribing non-formulary drugs for the categories related to gastro and cholesterol issues. You and the plan may save money by using generic or preferred formulary status drugs.
- \*Certain drugs, which represent the therapeutic equivalent of their prescription version, have now or may be approved by the U.S. Food and Drug Administration (FDA) to be sold over-the-counter (OTC). Therapeutic equivalency means that the OTC option has the same molecular structure, dosage form, strength, and indication present in the

prescription version. The FDA considers a number of factors, such as potential side effects and ease of use, before deciding whether or not a medication can be considered safe and effective to use without a prescription. Other medications that were formerly available only by prescription, such as *Benadryl*®, have been purchased over-the-counter for years.

Your prescription drug plan does not cover OTC medications, and, generally, drug benefit plans only cover prescription medications because these medications require the attention and services of physicians and pharmacists. Most plans, like yours, exclude coverage of OTC medications because the FDA is satisfied that such products can be used safely and effectively without requiring direct medical supervision. You may have already experienced convenience and savings in purchasing OTC products without the necessity of a physician visit, deductible and co-insurance at the retail level.

In light of one of the non-sedating antihistamine drugs being available over-the-counter in a therapeutically equivalent form, the remaining drugs in this therapeutic category of non-sedating antihistamines will be categorized in the highest (third) co-payment tier as of March 01, 2005.

For those patients involved with these formulary changes above, they will receive a detailed letter explaining their alternatives.

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## **Age 65 and Over Medicare Eligible Health Plan (MEHP) Open Enrollment**

This is to inform retirees and spouses, who are age 65 or older and not already enrolled in the KTRS Medicare Eligible Health Plan (MEHP) administered by Aetna and Medco, that June 1, 2005 begins Open Enrollment. If you are not currently enrolled in the MEHP and wish to have coverage effective July 1, 2005, you must contact KTRS for an enrollment form and return the completed form to this office by June 30, 2005. During Open Enrollment you can enroll without providing proof of a qualifying event. To enroll outside of Open Enrollment you must show evidence of a qualifying event. If you are currently enrolled in the KTRS MEHP, you do not have to do anything.

For calendar year 2005, the monthly cost for retirees and spouses covered by the KTRS MEHP is \$288.00

per person. In 2005, KTRS will pay the full premium rate for retirees with 20 or more years of service credit unless you were hired after July 1, 2002. Retirees with less than 20 years of service credit will pay a premium based on years of service credit. Spouses of KTRS retirees pay full premium cost for their coverage.

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## **Age 65 and Over Medicare Eligible Health Plan (MEHP) WHCRA Annual Notice**

Do you know that your plan, as required by the Women's Health and Cancer Rights Act of 1998, provides benefits for mastectomy-related services including all stages of reconstruction and surgery to achieve symmetry between the breasts, prostheses, and complications resulting from a mastectomy, including lymphedema? Call your Plan Administrator at 1-800-423-3289 for more information.

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## 2005 Legislative Session

The Kentucky General Assembly began the New Year by convening on January 4th for the 2005 General Session. As an "odd year" session, the Legislature will convene for only thirty days instead of sixty as it does in "even year" sessions. The Session is scheduled to come to a close on March 22<sup>nd</sup> when the General Assembly adjourns sine die.

It is anticipated that the as yet un-passed state budget for the 2004-06 biennium will dominate the attention of the General Assembly during the 2005 Session. State tax modification and public employee and retiree health insurance are also likely prominent topics

The primary objective KTRS will pursue is ensuring that retired teachers are treated equitably. This means requesting that the Legislature provide in the budget the funding needed under House Bill 434 to maintain

the KTRS medical program with benefits similar to those provided to other public retirees, such as state employees, county employees, bus drivers, and cafeteria workers. [See article on page 1 of this newsletter 'Needed Funding for Retired Teachers Medical Insurance Plan is Not Included in Governor's Budget'.] As always, KTRS will monitor new bills introduced before the General Assembly, opposing those that negatively affect the retirement system and supporting those that promote and protect it.

Though KTRS will not seek to introduce any housekeeping legislation during this Session, it is possible that legislation may be introduced on behalf of another entity that will have an impact on the retirement system and its members. Therefore, it is very important that you read upcoming editions of the KTRS Newsletter carefully for new legislative developments.

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### Board of Trustees Elect Trustee to KTRS Board



At the December 20, 2004, meeting of the Board of Trustees, Ronald L. Sanders of Hodgenville was elected by the Board to replace lay trustee, Governor Julian M. Carroll, who resigned due to his election to the State Senate.

Mr. Sanders, who has been involved in the banking industry for his entire career, is president and chief executive officer of Magnolia Bank, Hodgenville, and is extensively involved in civic and community organizations. Mr. Sanders' term of office will extend through June 30, 2007.

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#### 2005 Annuity Payment Dates

January 28  
February 25  
March 29

April 28  
May 27  
June 28

July 28  
August 29  
September 28

October 28  
November 28  
December 29

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OF THE STATE OF KENTUCKY**  
479 Versailles Road  
Frankfort, Kentucky 40601-3800  
**Immediate Attention Needed!**

**R**  
FEB 2005